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national farmers union

In Union Is Strength

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Submission

to the

Government of Canada

on the subject of

Bill C-75
An Act to amend the Canada Shipping Act

Ottawa, Ontario February 13, 1986

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INTRODUCTION:

We express appreciation for the opportunity to appear before this Committee to express our views on the specific proposals related to cost recovery as outlined in Section 4 of Bill C-75.

As primary producers of agricultural products, farmers contribute a significant amount to the positive side of Canada's annual balance of trade. We, therefore, have a vital interest in the proposed amendments. Reference is made to "defraying the cost of navigational services" which includes such definition as "aids to navigation, dredging, vessel traffic services, ice-breaking services and escorting services" in Subsection 4, all of which would potentially add costs to the transportation of grain.

Although the terms referred to above are unfamiliar to the average farm operator, we know that wherever the transportation of agricultural products is concerned, the buck stops at the farm gate.

The government also knows that farmers are in the midst of the most serious financial crisis to threaten their livelihood since the depth of the Great Depression fifty years ago.

Nonetheless farmers face, in Section 4 of Bill C-75, proposals for further indirect taxation of their income, already seriously battered by high production costs, rising interest rates, declining world prices, poor crops in some areas and protective trading and farm policies in many parts of the world, particulary in the U.S.

In its preoccupation to trim the federal deficit, the government is, in effect, telling farmers that the national interest can best be served by still further increasing farm costs at a time when the

Farm Credit Corporation estimates that one in every four, or about 40,000 farmers in Canada with $20,000 or more in gross annual farm sales, is in severe financial distress. The added costs to farmers implied by the new cost recovery proposals in Bill C-75 will provide nothing to enhance service in the movement of farm products that is not now offered and will only further impoverish farmers.

THE ST. LAWRENCE SEAWAY:

Grain is the major product transported through the St. Lawrence Seaway. In 1984-85, grain movement of 24.4 m.m.t. represented 45% of the total 54 m.m.t. of all commodities transported through this inland waterway. The 16.4 m.m.t. movement of Canadian grain represented two-thirds of the combined Canada-U.S. total.

The 1984-85 combined Canada-U.S. grain movement was down by 5.2 m.m.t. from the year previous and reflected a general drop in world grain exports. Western movement to Eastern Canadian feed grain markets have also declined as a result of sharply expanding corn production in both Ontario and Quebec.

While grain exports through the Seaway dropped in 1985, volume declines were also recorded in 1969, 1975 and 1980.

The financial mandate given the Seaway upon its opening in 1959 was that it be self-sufficient. It has over the years accumulated a $30 million surplus which, according to William O'Neil, President of the St. Lawrence Seaway Authority, the government has requested be turned over to it. The Authority estimates it will suffer a deficit of $22 million in 1985-86 and will also likely operate at a deficit in the next few years. Decline in tonnage has similarily been experienced in other commodities, principally iron ore and coal. It is apparent that the Seaway in fact has no surplus funds to pay to government.

Within recent months, the Seaway has been plagued by costly shutdowns resulting from a collapse of a lock wall, the collision of a ship with the Valleyfield bridge and problems at the Welland Canal.

In addition, the Canadian Wheat Board has recently proposed that larger volumes of prairie grain be marketed through the west coast

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While grain movements through the Seaway [illegible] in [illegible], volumes declined [illegible] 1982 and 1984.

The [illegible] was [illegible] the [illegible] in the 1970s [illegible] 120 million [illegible] the [illegible] turned [illegible] 172 million [illegible] next few [illegible] other commodities [illegible] the Seaway [illegible]

Winter [illegible] shutdowns [illegible] of a ship [illegible] the Welland Canal.

In addition, the [illegible] has recently proposed that larger volumes of [illegible] through the [illegible]

ports of Vancouver and Prince Rupert. In its objective of maximizing returns to grain producers, these ports provide a price advantage of $20-$22/t over shipments through Thunder Bay and St. Lawrence ports. It has increasingly become less economic to ship through the Seaway.

While the west coast has an estimated optimum annual grain shipping capacity of 15-16 m.m.t., it does relegate the Seaway to a second priority grain shipping route in circumstances where the option of port use is available. It is generally agreed that the majority of Canada's remaining grain exports would be handled through the Seaway but this is by no means certain.

Presently there is excess capacity in the grain transportation system both in Canada and the United States. With more grain being directed for export through West Coast ports, whether because of customer preference and/or better net returns to prairie grain producers, it seems evident that the Seaway will not be tested to handle the estimated 20-22 m.m.t. capacity it has for the movement of Canadian grain for some time to come.

It is known that the U.S. plans to attract new grain customers by reduction of its loan rates on grain to farmers by 30%. U.S. rail rates have been declining while Canadian rates have been rising. It appears inappropriate timing for the implementation of additional cost recovery programs on the Seaway at a time when demand for its use is declining.

Alternate routes for the export of grain now exist which could result in further decline of Seaway grain traffic.

Deregulation of rates in the U.S. and barge shipping overcapacity currently evident on the Mississippi waterway have resulted in the advocacy of that system as an alternate shipping route to the St. Lawrence Seaway. It is a highly subsidized shipping route with cost recovery estimated at 20% of its billion dollar annual operational expense. Its current shipping rates are said to be about 60% of its 1978 rates.

The U.S. section of the Seaway, while having 50% of the advan-

ports of Vancouver and Prince Rupert. In the interests of maximizing returns to grain producers, these ports provide a price advantage of $20-$25/t over shipments through Thunder Bay and St. Lawrence ports. It has increasingly become [illegible] economic to ship grain through the seaway.

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Alternate routes for the export of grain are under study and would result in further decline in Seaway grain traffic.

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The U.S. section of the Seaway, which handles 30% of the ocean-

tage is burdened with only 20% of the cost. It is currently considering ways to increase the use of the waterway by offering a rebate of tolls to its customers.

This is in sharp contrast to proposals that would be authorized under Section 4. The government has suggested a 15% increase in tolls on the Welland Canal. It is further proposing 15% cost recovery of coast guard services or approximately \$123 million of its annual \$824 million cost.

Section 4(2) further specifies charges might be imposed in relation to any ship or vessel "regardless of whether the Canadian Coast Guard actually provides a navigation service to that particular ship or vessel". In other words, ships could be assessed ice-breaking charges in July!

An additional concern since the 1970's among Canadian lake shipping vessels is the compelled use of pilots on ships whose crews may be adequately familiar with Seaway lanes and/or the ships may possess modern navigational equipment. This cost has contributed toward increasing lake shipping rates.

While the use of pilots may be fully justified on foreign flag vessels, the compelled use and cost of their services on Canadian ships should be reviewed. Pilots are this year seeking a 40% increase in fees which further adds to the potential cost structure in Seaway shipping and contributes toward its non-competitive status. It places its future use in jeopardy.

An additional alternate route in the eastward movement of export grain might be solid train directly from prairie inland grain terminals to Montreal. Should deregulation of rail freight rates in grain movement materialize, it is quite possible such direct movement would become competitive with the increasing cost of movement through the Seaway. Model studies conducted at the University of Manitoba confirm this possibility.

While we do not anticipate large scale movement of Canadian grain will move in the immediate future either directly to Eastern Canadian ports by unit train or through the Mississippi waterway, the

the facts remain that these alternate routes do exist and that rate cutting on current oversupply of equipment is a reality. Even the movement of amounts up to 5 m.m.t. by these alternate routes would prove detrimental to the viability of the Seaway.

Proposals outlined in Section 4 of Bill C-75 are running directly opposite to the indicated trend in transportation costs for users. This section should be removed from Bill C-75 in its entirety.

We regard the St. Lawrence Seaway as a national asset that should be maintained in the national interest. Cost recovery mandates should not be broadened to include essential maintenance responsibilities such as port dredging, ice-breaking services, vessel traffic services or other safety services that are essential to the safe, efficient operation of the system. It does not make good economic sense to raise rates in the face of declining demand.

We believe a complete review of the Seaway's mandate including an examination of its future role as a vital transportation system serving the national interest should be undertaken. The need for new capital works projects which might improve its operating efficiencies should be identified and acted upon. Twinning of the Welland Canal has been suggested as one such project.

In addition to reviewing charges related to the actual operation of the Seaway facility, we suggest the need to analyse the total cost of moving grain through the system including rail charges from prairie points, terminal elevator and inspection charges as well as lake shipping costs and transfer charges. All represent relevant factors to the viability of the Seaway operation.

FARMERS' ABILITY TO PAY:

The ability of farmers to continually absorb rising costs in the movement of their products to market is equally relevant to maintaining the Seaway as a cost efficient operation.

Prince Edward Island potato producers are absolutely dependent upon ship movement of their product off the Island and at no time more than during the winter months. Transportation constitutes a major cost item in moving potatoes to markets on the mainland.

This year prices received by producers are quoted at less than 2 cents per pound or approximately one-half of the prices received last year. It is generally accepted that production costs run between 5 and 6 cents per pound.

Needless to say, Maritime potato producers are concerned about additional transportation costs that would be assessed against the movement of their product to market for costs of ice breakers, navigational assistance, buoys, lighthouse costs, etc. They simply cannot afford to absorb these types of additional indirect taxation.

Prairie grain producers harvested a 1985 crop that is an estimated 13% higher than in 1984, however, loss of quality due to poor harvesting conditions and sharply lower world prices will lower net farm income returns in 1986 by approximately 15% from the year previous. The full potential impact of U.S. grain selling policies in world markets on Canadian export sales still cannot be evaluated, but it is apparent that in order to compete effectively, grain prices will be under heavy downward pressure.

The margins of return between farm cash receipts and realized net income returns have been steadily narrowing as illustrated below. This margin can be expected to narrow still further in 1986.

	Realized Net Income as %age of Farm Cash Receipts	
	1984	1985
Manitoba	17.5	15.2
Saskatchewan	24.9	19.8
Alberta	16.0	14.7

The shortfall in grain income specifically is sharply illustrated by the amount of Western Grain Stabilization Payments made to prairie grain producers in 1984 and 1985.

Western Grain Stabilization Payments

	Manitoba	Saskatchewan	Alberta	B.C.	Canada
		($ 000)			
1984	36,088	125,978	59,357	1,529	222,952
1985	85,500	295,000	138,000	3,500	522,000
TOTAL:	121,588	420,978	197,357	5,029	744,952

Additional W.G.S. payments are predicted to be made in 1986 and a reduction in 1986-87 crop year C.W.B. initial prices are generally anticipated to follow the lowering by 30% of guaranteed farm loan grain prices in the U.S.

It is the combination of these several circumstances that prompts us to again restate our belief that cost recovery proposals as are generally included under the provisions of Section 4, Bill C-75 are ill-timed and unjustified if measured against the weak farm income position currently evident in Canada.

Based on the criteria of ability of farmers to pay, it is once again our recommendation that Section 4 of Bill C-75 be removed from the proposed amendments to the Canada Shipping Act.

In conclusion, the government needs to look well beyond its narrow concern in trimming the federal deficit by whatever means may come to its attention and consider the broader implications of its actions. Deregulation of freight rates has been widely promoted by this government as the panacea for the promotion of competition and efficiency in the transportation industry.

The proposals outlined in Section 4 of Bill C-75 flies in the teeth of this philosophical approach. The implementation of Section 4 would serve only to further impair the future ability of the Seaway to operate as a viable shipping route for bulk commodities.

The implementation of Section 4 would impose additional costs upon farmers who are already hard-pressed and do not possess the power to pass added costs on to the buyers of their products. The course of action this Committee must take on this issue is self-evident.

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All of Which is Respectfully
Submitted by:

NATIONAL FARMERS UNION

national farmers union

In Union is Strength